



COAL MINING SECTOR UPDATE

Still Burning Bright

Coal Price: On the Way to the Top?

- For coal these days, seems like there's nothing holding the price back. Coal has grown by +140.57%YoY/+58.39%YTD to USD127.50/mt (24/06), the highest in 3 years.
- China remains the main price driver, apart from its hostility toward Australian coal, there are several other causes that lifted the price. Currently, the country is in the middle of a swift recovery. Proven by their 1Q21 GDP which grew by +18.30% YoY, supported by strong industrial activity and higher consumer spending. This has resulted in the increasing power demand.
- However, China is currently experiencing a coal shortage. Many provinces have considered power rationing to withstand the tight supply. Moreover, several mines had to be shut due to recent deadly accidents which will further suppress the domestic production. As seen in exhibit 02, China's coal inventory has been quite low throughout FY21E, but as the supply gone shallower, the price gone higher.
- We believe there will be more coal demand towards Indonesia, as China remains the largest importer which accounts for 27% of our coal export (exhibit 03). We see that coal price might hit its previous all time high at USD139.05/mt (2011), while our FY21E estimate remains at ~USD90/mt.

Indonesia's Greener Future: A contradiction!

- Coal power plant retirement in Indonesia had previously become a headline. Indonesia plans to shut down 50GW of coal plants by 2055 to achieve net zero carbon emission in 2060. Conversely, there are coal plant construction of 11.8GW in FY20 and at the same time plans to have a 21GW power plant operating until 2065.
- We believe that Indonesia is currently on the crossroads and the Government still has not officially decide on which way to go. As a coal dependent country with 35% energy contribution (as of FY20), it's quite difficult to shift towards renewables in a flash. Still, we struggle with economic concerns, as it turns out, not all coal generated plants would need to be retired to achieve net-zero carbon emissions. Hence, several plants can still provide return on investments.
- We see that Indonesia might reduce the use of coal and fossil fuel gradually but not entirely relying on renewables as well. These conventional energy would still be of use for a few decades, let alone we believe it will still be dependent on coal in the coming years, following the latest gasification projects that have just been initiated.

Coal Financing Termination

- US and Japan has decided to no longer fund coal plants in FY22F in the recent G7 summit, which we already seen coming with a firm clean energy tone from the US. This is followed by South Korea, one of the biggest funders for Indonesia.
- We have heard the coal power plant abandonment largely from the Europe and the US as they shift towards the renewables. The S&P Global Platts Analytics estimated that US coal-derived energy will be declining steadily each year, supplying approximately 23% of in FY21E to ~16% by FY26F.
- For an advanced country, it must have been easier to switch, as the US managed to cut their coal power in half within 10 years (see exhibit 04). But for developing countries it would take more years to adapt, so we see that the lack of financing will further be a burden on coal industry with only several supporting countries.

NEUTRAL Outlook for Coal Mining with top pick: ADRO (BUY; TP: IDR1,450)

Our outlook remains **NEUTRAL** on the coal mining sector as we believe that the investor's appetite will shift towards a greener industry, despite the price hike which we believe would only last a while. Subsequently, we still see a short term rebound for the coal stocks mainly due to the rise on coal price has not yet been reflected on the stock price causing the IDX Energy sector to perform below JCI. We recommend **BUY** on stocks with a high dividend yield and ESG awareness, in this case we choose **ADRO (BUY; TP: IDR1,450)**, supported by: 1) 5% dividend yield, the highest among peers in FY21E (PTBA at 2.93% and ITMG at 3.93%); 2) leading in ESG while having envirocoal which is an ultra-low pollutant coal; 3) variative business diversification with green initiatives; 4) participation in the government gasification projects; 5) and a potential increase on export size makes ADRO the strongest contender. ADRO is currently traded near -1STD with 0.72x PBV.

Ticker	Market Cap (IDR bn)	PER (x)		PBV (x)		Rec.	Target Price (IDR)
		FY21E	FY22F	FY21E	FY22F		
ADRO IJ	40,302	8.53	8.17	0.70	0.71	BUY	1,450
PTBA IJ	23,617	5.70	5.39	1.37	1.34	BUY	3,000
ITMG IJ	16,243	11.47	11.01	1.26	1.25	HOLD	14,400

Sources: Bloomberg, MNCS

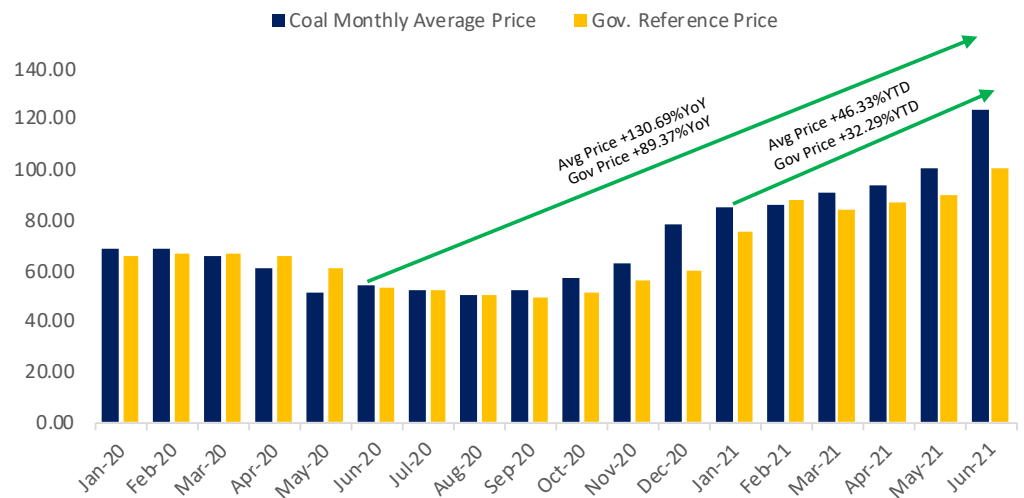


Research Associate

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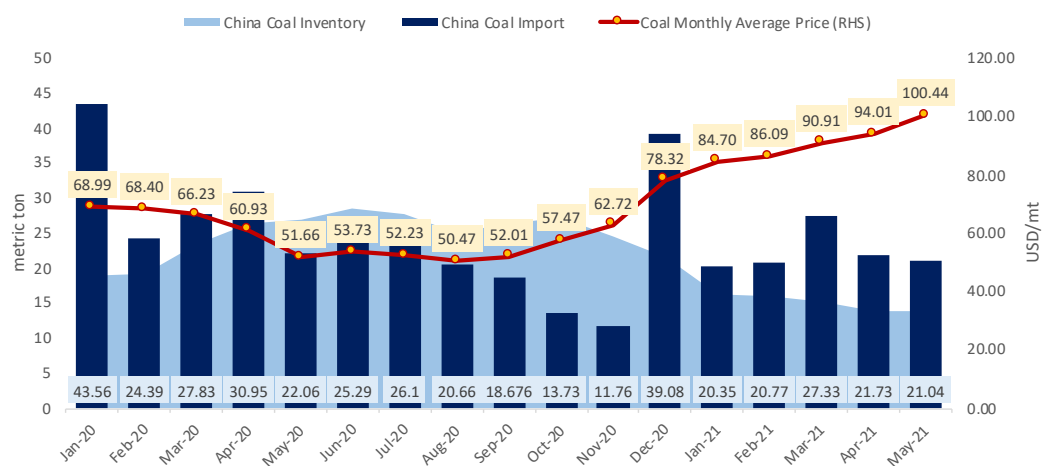
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Exhibit 01. Average Monthly Coal Price vs Govt Reference Price



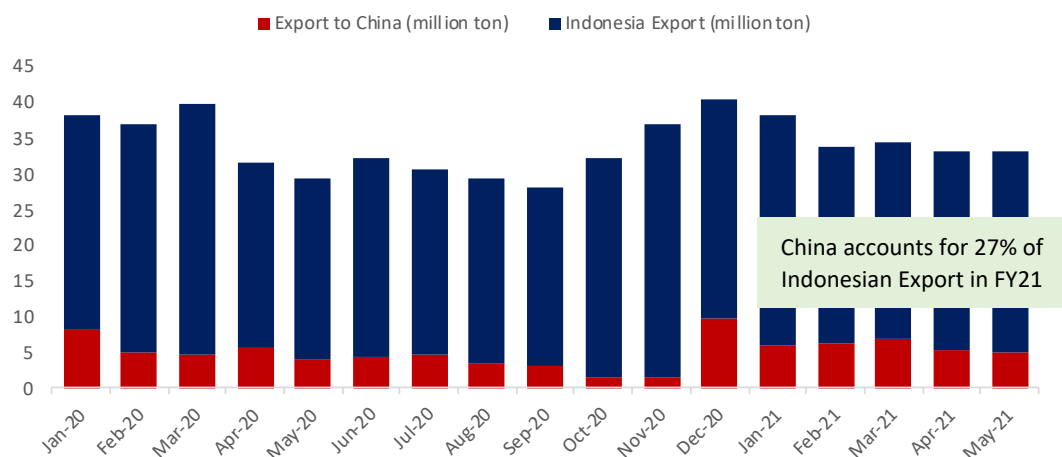
Sources : Bloomberg, Ministry of Energy and Mineral Resources, MNCS

Exhibit 02. China's Demand Impact toward Coal Price



Sources : Bloomberg, MNCS

Exhibit 03. China remains the significant coal importers from Indonesia



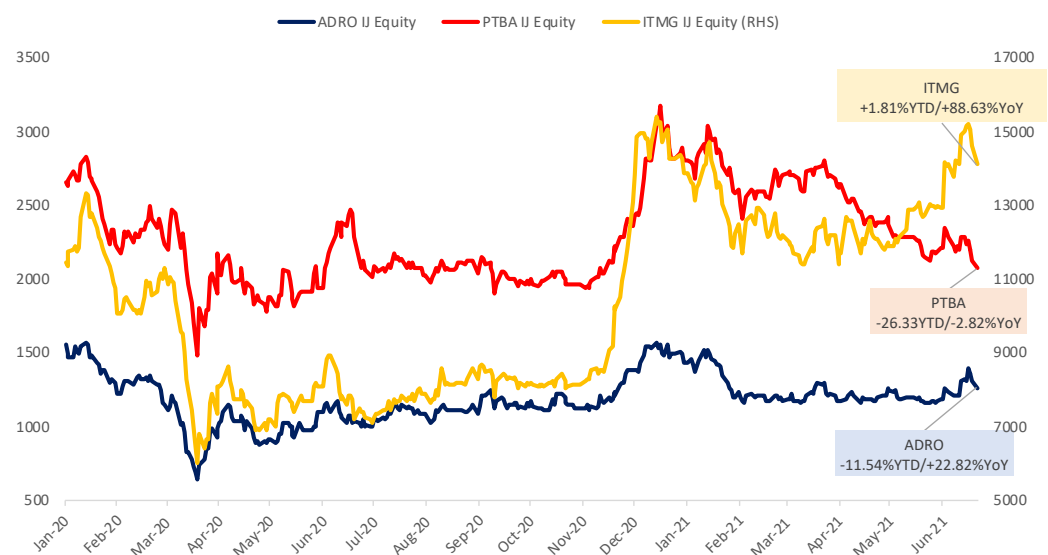
Sources : Bloomberg, MNCS

Exhibit 04. US Coal-generated Energy Share is estimated to decrease in the coming years



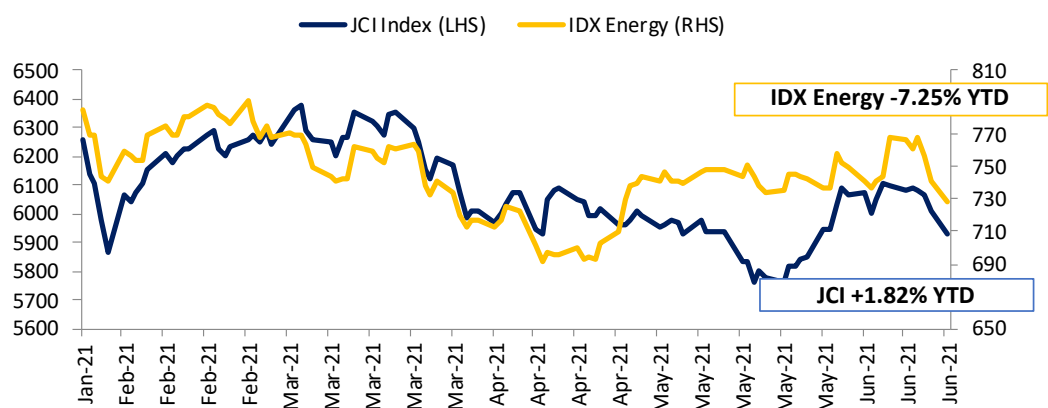
Sources : S&P Global Platts Analytics

Exhibit 05. Coal Player Stock Price Performance



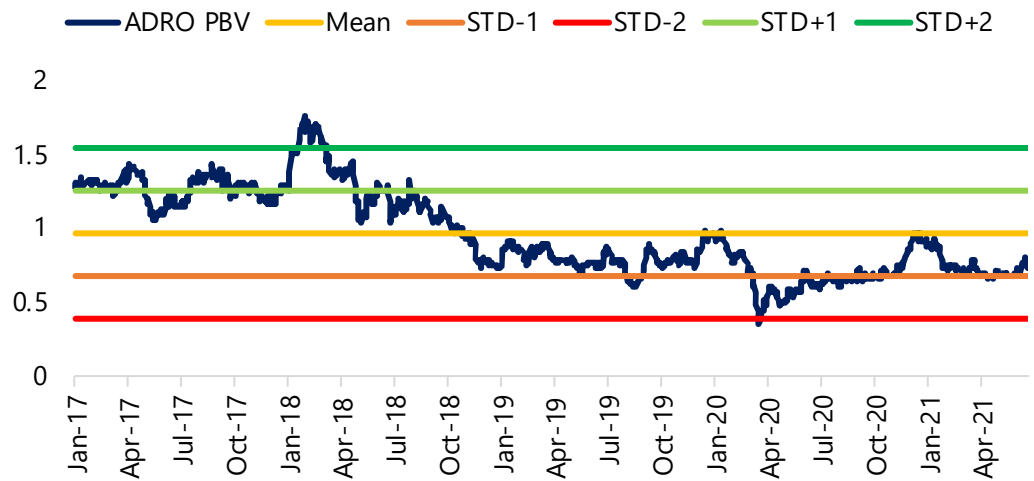
Sources : Bloomberg, MNCS

Exhibit 06. IDX Energy Performance is below JCI in FY21



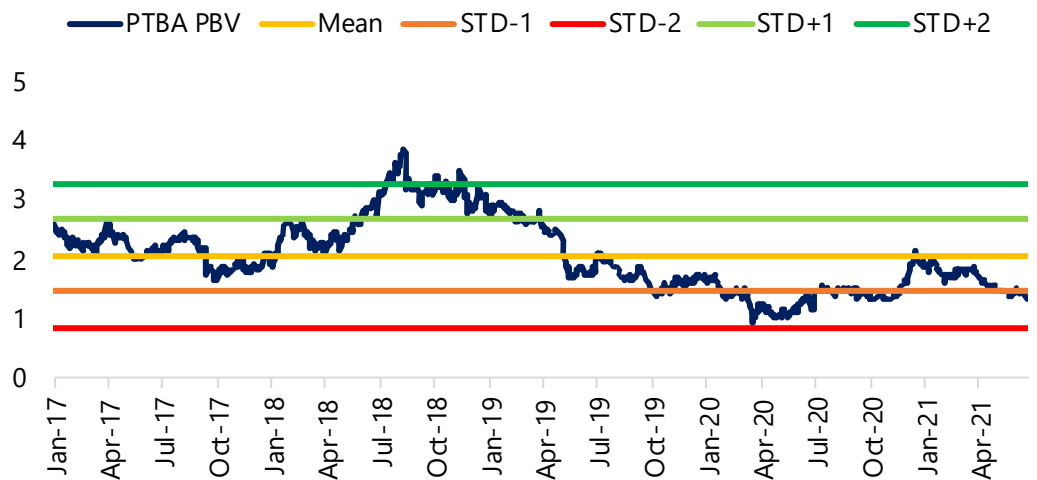
Sources : Bloomberg, MNCS

Exhibit 07. ADRO is currently traded near -1STD with 0.72x PBV



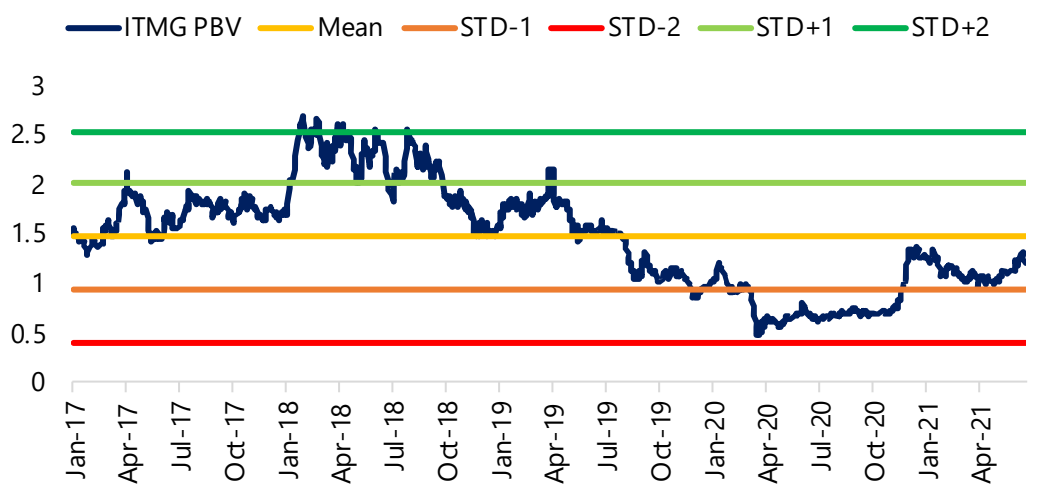
Sources : Bloomberg, MNCS

Exhibit 08. PTBA is currently traded at -1STD with 1.33x PBV



Sources : Bloomberg, MNCS

Exhibit 09. ITMG is currently traded at -0.5STD with 1.20x PBV



Sources : Bloomberg, MNCS

MNC Research Industry Ratings Guidance

OVERWEIGHT: Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months

NEUTRAL: Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months

UNDERWEIGHT: Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

MNC Research Investment Ratings Guidance

BUY : Share price may exceed 10% over the next 12 months

HOLD : Share price may fall within the range of +/- 10% of the next 12 months

SELL : Share price may fall by more than 10% over the next 12 months

Not Rated : Stock is not within regular research coverage

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